

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name GRAND RAPIDS HOUSING COMMISSION	County KENT
Audit Date 6/30/05	Opinion Date 8/26/05	Date Accountant Report Submitted to State: 3/27/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

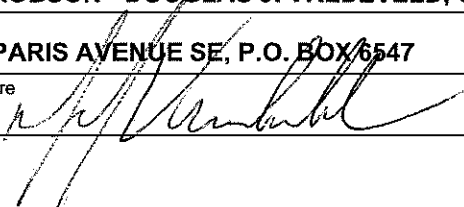
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) REHMANN ROBSON - DOUGLAS J. VREDEVELD, CPA, PRINCIPAL			
Street Address 2330 EAST PARIS AVENUE SE, P.O. BOX 6547		City GRAND RAPIDS	State MI
Accountant Signature 		ZIP 49516-6547	Date 3/27/06

GRAND RAPIDS HOUSING COMMISSION

GRAND RAPIDS, MICHIGAN

**FINANCIAL STATEMENTS
AND
SINGLE AUDIT REPORT**

FOR THE YEAR ENDED JUNE 30, 2005

GRAND RAPIDS HOUSING COMMISSION

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INDEPENDENT AUDITORS' REPORT

August 26, 2005

Board of Directors
Grand Rapids Housing Commission
Grand Rapids, Michigan

We have audited the accompanying statement of net assets of the Grand Rapids Housing Commission, as of June 30, 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Grand Rapids Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Grand Rapids Housing Commission, as of June 30, 2005, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2005 on our consideration of the Grand Rapids Housing Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the financial statements of the Grand Rapids Housing Commission. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in cursive script, reading "Lehmann Lohman". The signature is written in black ink and is centered horizontally below the main body of text.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Grand Rapids Housing Commission's (the Commission) annual financial report presents our discussion and analysis of the Commission's financial performance during its fiscal year that ended on June 30, 2005. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by the financial statements and footnotes. This discussion and analysis is designed to focus on current activities, resulting changes and currently known facts. The financial statements, footnotes and this discussion are the responsibility of Commission management.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the Commission's financial statements.

USING THIS ANNUAL REPORT

This annual financial report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and the single audit section. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The Commission's statements report information about the Commission as a whole using accounting methods similar to those used by private sector companies.

These statements include a Statement of Net Assets, which is similar to a Balance Sheet. The Statement of Net Assets reports all financial and capital resources for the Commission. The statement is presented in the format where assets, minus liabilities, equals "Net Assets". Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-current".

The focus of the Statement of Net Assets is "Unrestricted Net Assets" which represents the net available liquid assets, net of liabilities, for the entire Commission. Net assets are reported in three broad categories:

Invested in Capital Assets, Net of Related Debt: Consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets: Consists of restricted assets, when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

Unrestricted Net Assets: Consists of net assets that do not meet the definition of "Net Assets Invested in Capital Assets, Net of Related Debt", or "Restricted Net Assets".

The Commission's financial statements also include a Statement of Revenues, Expenses and Changes in Net Assets. This Statement includes operating revenues, such as rental income, operating expenses, such as contractual services, utilities, and depreciation, and nonoperating revenues and expenses, such as investment income and interest expense. The focus of the Statement of Revenues, Expenses and Changes in Net Assets is the "Change in Net Assets", which is similar to net income or loss.

Finally, a Statement of Cash Flows is included, which discloses net cash provided by, or used for operating, noncapital financing, and capital and related financing, and investing activities. In addition to information about cash transactions, the Statement of Cash Flows reconciles operating income on the Statement of Revenues, Expenses and Changes in Net Assets with net cash provided by operating activities on the Statement of Cash Flows.

FINANCIAL HIGHLIGHTS

- The Commission's net assets decreased by \$278,587 (or 2.0%) during fiscal year 2005. Net assets were \$13.4 million for 2005.
- Operating revenues increased by \$1.6 million (or 7.5%) during 2005, and were \$22.8 million for 2005.
- The total expenses of all Commission programs increased by \$1.2 million (or 5.2%). Total expenses were \$23.7 million for 2005.

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets.

<u>CONDENSED STATEMENT OF NET ASSETS</u>	
	2005 (in millions)
Assets	
Current and other assets	\$ 4.1
Capital assets	27.1
Total assets	<u>\$ 31.2</u>
Liabilities	
Current and other liabilities	\$ 1.1
Long-term liabilities	16.7
Total liabilities	<u>\$ 17.8</u>
Net assets	
Invested in capital assets, net of related debt	\$ 15.2
Restricted	1.1
Unrestricted	(2.9)
Total net assets	<u>\$ 13.4</u>

Major Factors Affecting the Statement of Net Assets

Current and other assets decreased slightly (\$.3 million) while liabilities increased more significantly (\$4.6 million). This is due to entering into construction loans to develop an additional 55 units of senior housing in an addition to the Mt. Mercy development and develop 45 units of senior housing at the former Sheldon School building.

Capital assets increased by \$4.7 million due to the construction at Mt. Mercy and Sheldon.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The following condensed schedule of operating and nonoperating revenues and expenses for the current fiscal year.

	2005 (in millions)
Operating Revenues	
Tenant Revenue – Rents and Other	\$ 1.7
Federal Grants	21.0
Other Revenues	0.3
Total Operating Revenue	<u>23.0</u>
Operating Expenses	
Administrative	3.2
Tenant Services	.6
Utilities	.8
Maintenance	1.2
General	.3
Housing Assistance Payment	15.7
Depreciation and Amortization	1.2
Total Operating Expenses	<u>23.0</u>
Nonoperating Revenues (Expenses) – Interest, Net	(.6)
Capital Contributions – Capital Grant	<u>.3</u>
Net Decrease	<u>\$ (.3)</u>

Major Factors Affecting the Statement of Revenue, Expenses and Changes In Net Assets

Federal Grants increased substantially (\$1.5 million). This increase was primarily due to an increased grant for the Housing Choice Voucher Program. The Commission was awarded 166 new vouchers by the Department of Housing and Urban Development in the prior year and completed the lease-up in the current year. There was a corresponding increase in Housing Assistance Payments of \$.6 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of year end, the Commission had \$23.0 million invested in a variety of capital assets as reflected in the following schedule.

CAPITAL ASSETS AT YEAR-END (NET OF DEPRECIATION)

	<u>2005</u>
Land	\$ 325,090
Buildings	34,009,564
Furniture and Fixtures	3,683,264
Accumulated Depreciation	(17,527,316)
Construction In Progress	<u>6,612,079</u>
Total	<u>\$ 27,102,681</u>

Debt Outstanding

As of year-end, the Commission had \$15,545,196 in debt (bonds, mortgages, etc.) outstanding compared to \$8,971,527 last year, a \$6,573,669 net increase.

The Commission entered into construction loans to construct 55 housing units in an addition to the Mt. Mercy property (\$3.5 million) and to construct 45 housing units at the former Sheldon School property (\$1.9 million).

Statement of Cash Flows

The following table summarizes the cash flow for the year:

Cash provided by operating activities	\$ 1,253,892
Cash used by capital and related financing activities	(1,583,752)
Cash provided by investing activities	<u>150,347</u>
Net decrease in cash	(179,513)
Cash, beginning of year	<u>2,673,628</u>
Cash, end of year	<u>\$ 2,494,115</u>

Cash provided by operating activities of \$1,253,892 is the difference between federal grants received, rental income received from tenants, and other miscellaneous revenues and expenses for administrative expenses, tenant services, utilities, maintenance, general expenses, and housing assistance payments. Cash provided by capital and related financing activities includes amounts paid for principal and interest on bonds and notes payable, improvements and renovations made to Housing Commission property, proceeds from loans, construction and renovation of capital assets, federal grants for improvements and renovations, and other financing activities. Cash provided by investing activities includes interest income.

Overall, the Housing Commission paid \$179,513 more in cash than it received, leading to a 6.7% decrease in the cash balance over the beginning of the year.

ECONOMIC FACTORS

Significant economic factors affecting the Commission are as follows:

- Federal funding of the Department of Housing and Urban Development
- Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental income
- Inflationary pressure on utility rates, supplies and other costs

OVERALL FINANCIAL POSITION

Management believes the Commission is in sound condition financially, with revenues exceeding expenses (not including depreciation expense) and current assets exceeding current liabilities and net assets of more than \$13 million. The Housing Commission continues to pursue funding to build additional housing that will help meet the needs of our community's growing senior citizen population. Our staff will continue to take a leadership role in addressing the housing and supportive needs of Greater Grand Rapids families.

FORWARD-LOOKING STATMENTS

From time to time, the Commission may publish forward-looking statements and comments relating to possible or assumed future results for operations, construction, anticipated financial performance and similar matters. These forward-looking statements are subject to risks and uncertainties. When the Commission uses any of the words such as "believes," "expects," "anticipates," "estimates" or similar expressions, the Commission is making forward-looking statements. The Commission claims the protection of safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all of the Commission's forward-looking statements. The Commission believes that its forward-looking statements are reasonable.

Readers should not place undue reliance on any such forward-looking statements, which address issues only as of the date made. Readers should understand that many factors, in addition to those discussed elsewhere in this Annual Report and in the Commission's public documents to which it refers, could affect the Commission's future results. This could cause those results to differ materially from those expressed in the Commission's forward-looking statements.

The Commission undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events.

FINANCIAL CONTACT

The individual to be contacted regarding this report is Linda Bigelow, Financial Director of the Grand Rapids Housing Commission, at (616) 235-2600. Specific requests may be submitted to Linda Bigelow, Financial Director, Grand Rapids Housing Commission, 1420 Fuller Avenue SE, Grand Rapids, MI 49507.

GRAND RAPIDS HOUSING COMMISSION

STATEMENT OF NET ASSETS

JUNE 30, 2005

ASSETS	
Current assets	
Cash and cash equivalents	\$ 398,050
Accounts receivable	45,850
Due from other governmental units	558,740
Deferred expenses	95,751
Total current assets	1,098,391
Noncurrent assets	
Notes receivable	167,382
Restricted assets	2,775,805
Deferred mortgage costs, net of accumulated amortization of \$62,630	39,979
Capital assets	
Land	325,090
Buildings	34,009,564
Furniture and fixtures	3,683,264
Construction in progress	6,612,079
Less accumulated depreciation	(17,527,316)
Total capital assets	27,102,681
Total noncurrent assets	30,085,847
Total assets	31,184,238
LIABILITIES	
Current liabilities	
Vouchers payable	145,185
Salaries and wages payable	48,327
Accrued compensated absences	29,350
Accrued interest payable	194,282
Due to the City of Grand Rapids	96,680
Current portion of bonds and notes payable	298,834
Unearned revenue	29,019
Other current liabilities	228,049
Total current liabilities	1,069,726
Noncurrent liabilities	
Unearned revenue	109,700
Accrued compensated absences	182,337
Tenant security deposits	171,073
Bond premium	145,134
Bonds and notes payable, less current portion	15,246,362
Family self sufficiency program escrow	893,497
Total noncurrent liabilities	16,748,103
Total liabilities	17,817,829
NET ASSETS	
Invested in capital assets, net of related debt	15,175,315
Restricted	1,048,925
Unrestricted (deficit)	(2,857,831)
Total net assets	\$ 13,366,409

The accompanying notes are an integral part of these financial statements.

GRAND RAPIDS HOUSING COMMISSION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2005

Operating revenues	
Federal grants	\$ 20,986,854
Charges for services	1,663,132
Miscellaneous	339,733
Total operating revenues	22,989,719
Operating expenses	
Administrative	3,208,783
Tenant services	556,830
Utilities	836,350
Maintenance	1,178,277
General	310,446
Housing assistance payment	15,743,442
Depreciation and amortization	1,151,437
Total operating expenses	22,985,565
Operating income	4,154
Nonoperating revenues (expenses)	
Interest revenue	150,347
Interest expense and paying agent fees	(734,954)
Loss on disposal of capital assets	(3,864)
Net nonoperating expenses	(588,471)
Loss before capital contributions	(584,317)
Capital contributions	
Capital grant	305,730
Decrease in net assets	(278,587)
Net assets, beginning of year	13,644,996
Net assets, end of year	\$ 13,366,409

The accompanying notes are an integral part of these financial statements.

GRAND RAPIDS HOUSING COMMISSION

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2005

Cash flows from operating activities	
Cash received from federal grants	\$ 21,180,318
Cash received from rental receipts	1,609,269
Cash received from other sources	339,733
	<u>23,129,320</u>
Payments for administrative services	(3,347,950)
Payments for tenant services	(556,830)
Payments for utilities	(836,350)
Payments for maintenance	(1,173,469)
Payments to other vendors	(218,738)
Housing assistance payments	(15,742,091)
	<u>(21,875,428)</u>
Net cash provided by operating activities	<u>1,253,892</u>
Cash flows from capital and related financing activities	
Principal payments on bonds and notes payable	(342,911)
Proceeds from loans	4,866,793
Interest paid on bonds and notes payable	(676,270)
Principal and interest paid to the City of Grand Rapids	91,708
Capital grants	305,730
Proceeds on notes receivable	2,632
Purchases of capital assets	(5,831,434)
	<u>(1,583,752)</u>
Net cash provided by capital and related financing activities	<u>(1,583,752)</u>
Cash flows provided by investing activities	
Interest income	<u>150,347</u>
Net decrease in cash and cash equivalents	(179,513)
Cash and cash equivalents, beginning of year	<u>2,673,628</u>
Cash and cash equivalents, end of year	<u>\$ 2,494,115</u>
Reconciliation of cash to the statement of net assets	
Cash and cash equivalents presented above	\$ 2,494,115
Less: Cash and cash equivalents included in restricted assets	(2,096,065)
Cash and cash equivalents presented on the statement of net assets	<u>\$ 398,050</u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating income	\$ 4,154
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation and amortization	1,151,437
Changes in assets and liabilities	
Accounts receivable	(18,363)
Due from other governmental units	193,464
Vouchers payable and other accrued liabilities	(133,008)
Tenant security deposits	5,739
Due to the City of Grand Rapids	91,708
Deferred revenue	(41,239)
Net cash provided by operating activities	<u>\$ 1,253,892</u>

The accompanying notes are an integral part of these financial statements.

GRAND RAPIDS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Grand Rapids Housing Commission (the "Commission") was created by the City of Grand Rapids (the "City") under the provisions of Act 18, Public Acts of 1933 of the State of Michigan to provide for the development, maintenance and improvement of safe and sanitary housing for low-income families, handicapped, disabled, and senior citizens within the community. The Commission is under the supervision and control of a five member Board appointed by the City Manager, subject to the confirmation of the City Commission. The Commission's primary source of revenues is derived through federal grants.

Reporting Entity

The Commission is considered to be a stand-alone government in accordance with generally accepted accounting principles. The Commission reports as a business-type activity, as defined by the Governmental Accounting Standards Board Statement No. 34, rather than issuing financial statements which focus on the accountability of individual funds.

Measurement Focus and Basis of Accounting

The economic resources measurement focus and the accrual basis of accounting are used in preparing the financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission are federal grants and charges to customers for services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Commission has elected not to follow subsequent private-sector guidance.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Commission considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

GRAND RAPIDS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

Restricted Assets

Certain proceeds of the Commission's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate accounts and their use is limited by applicable bond covenants. Restricted assets consist of the following accounts. The maintenance account is used to report resources set aside to subsidize potential deficiencies from the Commission's operation that could adversely affect debt service payments. The bond and interest redemption fund account is used to segregate resources accumulated for debt service payments over the next twelve months. The bond and interest reserve account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account. The equipment replacement account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

Due From and Due To Other Governmental Units

These accounts represent amounts due from and due to federal grantors for specific programs and capital projects. Revenues received in advance of project costs being incurred are deferred.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Compensated Absences

Commission employees are granted vacation and sick leave in varying amounts based on length of service.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

GRAND RAPIDS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

2. RESTRICTED ASSETS

Assets are restricted as follows:

Tenant security deposits	\$ 171,073
Assets restricted in connection with the 1992 Housing Corporation Revenue Refunding Bonds	679,741
Assets restricted by U.S. Department of Housing and Urban Development for the replacement of certain property	820,545
Assets restricted in connection with the mortgage note payable for the property maintenance and improvement	161,638
Assets restricted in connection with the Family Self Sufficiency Program	<u>942,808</u>
	<u>\$ 2,775,805</u>

The restricted assets consist of the following:

Cash and short-term Institutional Liquid Assets	\$ 2,096,065
Guaranteed investment contracts	<u>679,740</u>
Total restricted cash and investments	<u>\$ 2,775,805</u>

3. DEPOSITS AND INVESTMENTS

The Commission's deposits and investments are included on the statement of net assets under the following classifications:

	<u>Cash and Cash Equivalents</u>	<u>Restricted Assets</u>	<u>Total</u>
Deposits	\$ 388,676	\$ 2,096,065	\$ 2,484,741
Investments	<u>9,374</u>	<u>679,740</u>	<u>689,114</u>
Total	<u>\$ 398,050</u>	<u>\$ 2,775,805</u>	<u>\$ 3,173,855</u>

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$2,540,558 at June 30, 2005. Of that amount, up to \$100,000 was covered by federal depository insurance. This insurance coverage pertains to all the deposits in the Grand Rapids Housing Commission's name. Of the preceding deposit amounts, therefore, the uninsured and uncollateralized portion totaled at least \$2,440,558 at June 30, 2005.

GRAND RAPIDS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

The Commission believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Commission evaluates each financial institution with which it deposits Commission funds in accordance with the parameters of the Revenue Bond Resolution and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

As of June 30, 2005, the Commission had the following investments and maturities:

The Commission chooses to disclose its investments by specifically identifying each. As of year-end, the Commission had the following investments:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Bershire Hathaway GIC – 4.90%	06/15/2041	\$ 246,863	Not rated
Bershire Hathaway GIC – 6.75%	06/15/2041	373,600	Not rated
Scudder Money Market Fund		9,374	Not rated
Fifth Third Institutional Gov't PFD		<u>59,278</u>	Not rated
Total investments		<u>\$ 689,115</u>	

Investment and Deposit Risk

The Commission is authorized by Michigan Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

The Commission's investments are categorized to give an indication of the level of risk assumed by the entity at June 30, 2005. Investments that are insured, registered or held by the Commission or its agents fall within Risk Category 1. Commission investments consist of uncategorized mutual funds of \$9,374 and Category 1 U.S. Treasury and U.S. Government Agency securities of \$679,741. All investments are recorded at fair value. Management believes that the deposits and investments comply with the Revenue Bond Resolution, board policy and state law noted above.

Interest Rate Risk. The Commission's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year-end.

Credit Risk. State law limits investments to bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers acceptances and mutual funds and investment pools that are composed of authorized investment vehicles. The investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year-end.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Commission does not have a policy for investment custodial credit risk.

GRAND RAPIDS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

4. CAPITAL ASSETS

A summary of capital assets is as follows:

	<u>June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2005</u>	<u>Depreciable Life-Years</u>
Capital assets, not being depreciated					
Land	\$ 249,058	\$ 76,032	\$ -	\$ 325,090	-
Construction in progress	3,873,170	4,884,965	2,146,056	6,612,079	-
Capital assets, being depreciated					
Building	31,269,061	3,438,391	697,888	34,009,564	35
Furniture and fixtures	<u>3,525,240</u>	<u>313,620</u>	<u>155,596</u>	<u>3,683,264</u>	3-10
Total	38,916,529	8,713,008	2,999,540	44,629,997	
Less accumulated depreciation	<u>16,491,922</u>	<u>1,151,437</u>	<u>116,043</u>	<u>17,527,316</u>	
Net capital assets	<u>\$22,424,607</u>	<u>\$ 7,561,571</u>	<u>\$ 2,883,497</u>	<u>\$27,102,681</u>	

5. DEBT

The Commission has available a \$5,000,000 line of credit. This line of credit will be converted to a term loan when it matures in July 2006 with interest at 0.5% below prime rate. The balance on the line was \$5,000,000 at June 30, 2005. The Commission also has a construction line of credit available for the construction of the Sheldon project. The balance on the line was \$1,916,579 as of June 30, 2005. The line will be converted to a term note on the earlier of May 1, 2007 or completion of the construction. Interest on this line of credit is 0.5% below prime.

Long-term debt outstanding is as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>	<u>Due Within One Year</u>
Mortgage note payable monthly at \$22,186 including interest at 6.75% maturing December 2007.	\$ 2,246,527	\$ -	\$ 119,139	\$ 2,127,388	\$ 126,572
1992 Housing Corporation Revenue Refunding Bonds, payable from restricted assets, at \$55,000 principal per six months, maturing July 2022 with interest at 7.35%.	4,225,000	-	115,000	4,110,000	125,000
Term loan payable monthly at \$14,800 including interest at the bank's prime rate (6.25% at June 30, 2005), maturing July 2008.	<u>2,500,000</u>	<u>-</u>	<u>108,771</u>	<u>2,391,229</u>	<u>47,262</u>
Total mortgages and term loans	8,971,527	-	342,910	8,628,617	298,834
Lines of credit – long-term	<u>-</u>	<u>6,916,579</u>	<u>-</u>	<u>6,916,579</u>	<u>-</u>
Total long-term debt	<u>\$ 8,971,527</u>	<u>\$ 6,916,579</u>	<u>\$ 342,910</u>	<u>\$15,545,196</u>	<u>\$ 298,834</u>
Accrued compensated absences	<u>\$ 180,244</u>	<u>\$ 31,443</u>	<u>\$ -</u>	<u>\$ 211,687</u>	<u>\$ 29,350</u>

Certain bond ordinances require that reserve funds be maintained with a minimum balance during the period each issue is outstanding.

GRAND RAPIDS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

Debt Service Requirements

The annual requirements to maturity on debt outstanding as of June 30, 2005, excluding unamortized discount and deferred refunding costs on bonds payable are as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 298,834	\$ 576,982	\$ 875,816
2007	314,004	556,336	870,340
2008	2,056,611	474,868	2,531,479
2009	2,409,168	292,120	2,701,288
2010	165,000	258,862	423,862
2011-2015	1,050,000	1,086,153	2,136,153
2016-2020	1,525,000	624,476	2,149,476
2021-2023	<u>810,000</u>	<u>68,957</u>	<u>878,957</u>
Total	<u>\$ 8,628,617</u>	<u>\$ 3,938,754</u>	<u>\$12,567,371</u>

6. BENEFIT PLANS

During fiscal year 1998, the Commission established certain defined compensation, retirement and post-employment benefit plans. Before these plans were established, eligible employees participated in similar defined compensation, retirement and post-employment benefit plans administered by the City of Grand Rapids.

Defined Benefit Plan

The information for the Commission's defined benefit pension plan is as of December 31, 2004, which is the most recent information available.

Plan Description

The Commission's defined benefit pension plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. The Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Commission.

Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

GRAND RAPIDS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

Funding Policy

The Commission is required to contribute at an actuarially determined rate. Plan member contributions, which are required by ordinance, are based on compensation. Plan member contributions are 3.78% of regular compensation paid by the Commission. The Plan member contributions are 100% vested. Employees retain the right upon resignation to withdraw their contributions plus regular interest, as defined by the plan, in lieu of any pension rights they may have.

Annual Pension Cost

For the year ended June 30, 2005, the Commission's annual pension cost of \$51,930 for MERS was equal to the Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 37,693	100%	\$ -
2004	46,040	100%	-
2005	51,930	100%	-

Required Supplementary Information – Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/02	\$ 347,445	\$ 860,520	\$ 513,075	40.4%	\$ 269,811	190.2%
12/31/03	421,750	991,943	570,193	42.5%	290,029	196.6%
12/31/04	497,448	1,047,112	549,664	47.5%	288,790	190.3%

GRAND RAPIDS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

Deferred Compensation Plans

The Commission offers a deferred compensation plan created in accordance with Internal Revenue Code (“IRC”) section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

The Commission also offers a defined contribution contributory savings plan created in accordance with IRC Section 401(a) to all full-time employees not participating in the MERS plan. Participants contribute 3% of gross wages, except for the director who contributes 6% of gross wages; the Commission contributes 8% and 14% of gross wages, respectively. Participants are immediately vested in required employee contributions and in employer contributions. Plan contributions are maintained with earnings in a deferred account for each participant. At June 30, 2005, there were 54 plan members and the total fair market value of plan assets, which consists of various mutual funds administered by ICMA Retirement Corporation, was approximately \$1,402,279. Contributions made by employees and the Commission totaled \$78,798 and \$207,947, respectively, for the year ended June 30, 2005. Covered payroll for the year ended June 30, 2005 was approximately \$2,517,557, total payroll for the year ended June 30, 2005 was approximately \$2,538,383. Plan provisions and contribution requirements are established and may be amended by the Commission.

Post-Employment Benefit Plan

The Commission pays the annual health care expenses for qualified retirees and their eligible dependents until the retirees reach age 65. The Commission records the expense on a pay-as-you-go basis. During the year ended June 30, 2005, there were no retirees receiving benefits.

7. COMMITMENTS, CONTINGENCIES AND RELATED PARTY TRANSACTIONS

Construction Commitment

The Commission had commitments for a construction project totaling \$3,761,499 at June 30, 2005.

Federal Grants

The Commission has received several federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although no amounts have been claimed, such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. The Commission believes such disallowances, if any, will be immaterial.

Insurance Risk Pool

The Commission is a member of an insurance pool managed by Housing Authority Insurance (“HAI”) for general, property and automobile insurance. This insurance pool is available only to Housing Authorities and is approved by the Department of Housing and Urban Development. The HAI Commission determines premiums on an annual basis. The Commission determines a standard rate and adjusts that rate annually based upon each Housing Commission’s loss history.

GRAND RAPIDS HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

Guarantees

The Commission is the sole member of certain corporations which are general partners of three limited partnerships. The limited partnerships were established to qualify for low income housing tax credits pursuant to federal income tax regulations. Accordingly, the Commission agreed to advance these limited partnerships amounts necessary to fund working capital deficits generated in the operation of low-income transitional housing facilities for homeless women with children or elderly individuals. Advances will bear interest at a specified banking institution's prime lending rate and are payable when the housing facilities generate sufficient revenues to make such payments. The Commission has not recorded an asset for these advances or the related interest income as the collection of the advances is not likely. In addition, pursuant to agreements between the limited partnerships and the Grand Rapids Housing Commission, at various dates beginning January 2007 through November 2010, the limited partnerships have rights to sell certain property and the Grand Rapids Housing Commission is obligated to purchase the property for the amount of outstanding advances, the total of which is estimated to be approximately \$9,780,000.

Litigation

In the normal course of its activities, the Commission becomes a party in various legal actions. In the opinion of management, except for the following, adequate reserves have been established for the potential liability of all claims. The Commission is defendant in a lawsuit claiming breach of contract regarding a Construction contract for a housing facility. Although still somewhat unclear as to what damages would be, potential damages are in excess of \$500,000. The commission has asserted a counter demand for arbitration seeking damages in excess of \$1,000,000.

* * * * *



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

August 26, 2005

Board of Directors
Grand Rapids Housing Commission
Grand Rapids, Michigan

We have audited the financial statements of Grand Rapids Housing Commission as of and for the year ended June 30, 2005, and have issued our report thereon dated August 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grand Rapids Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grand Rapids Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, MSHDA and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

August 26, 2005

Board of Directors
Grand Rapids Housing Commission
Grand Rapids, Michigan

Compliance

We have audited the compliance of Grand Rapids Housing Commission with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Grand Rapids Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Grand Rapids Housing Commission's management. Our responsibility is to express an opinion on Grand Rapids Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Grand Rapids Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Grand Rapids Housing Commission's compliance with those requirements.

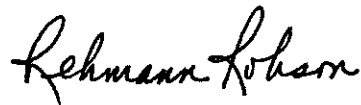
In our opinion, Grand Rapids Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Grand Rapids Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Grand Rapids Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, MSHDA and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

**GRAND RAPIDS HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>GRANT AWARD NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct programs			
Section 8 new construction and substantial rehabilitation	14.182	2 MI133-A005-002	\$ 1,213,510
Section 8 moderate rehabilitation (moderate rehabilitation 1)	14.856	2 MI073MR0001	91,722
Section 8 moderate rehabilitation (single room occupancy)	14.249	2 MI073MR0004	414,434
Supportive housing program	14.235	MI28B306008?	191,438
Public and indian housing	14.850	MICH 73-1,2,3	876,308
Resident opportunity and supportive services	14.870	MI073REL048A003	110,082
Section 8 housing choice vouchers	14.871	MI073VO- various	16,752,274
Public housing capital fund	14.872	MI33PO7350101	243,982
"	14.872	MI33PO7350102	453,430
Shelter plus care	14.238	MI073SC0002	90,779
Section 8 new construction and substantial rehabilitation - Ransom Avenue Development Corporation	14.182	2,3 MI33-0010-001	761,497
Passed through Michigan State Housing Development Authority			
Emergency shelter grant program	14.231	HML-2003-5624-ESF	93,128
TOTAL FEDERAL AWARDS			\$ 21,292,584

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1) Basis of presentation-

The schedule of expenditures of federal awards includes the federal grant activity of Grand Rapids Housing Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements. Property and equipment costs are charged to programs and reported as expenditures on the schedule of expenditures of federal awards as they are incurred.

2) These programs are treated as a cluster of programs in the OMB Circular A-133 March, 2004 compliance supplement.

3) The Ransom Avenue Development has a separately issued audit following the HUD Audit Guide.

GRAND RAPIDS HOUSING COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2005

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified not

considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial

statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified not

considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section 510(a)?

_____ yes X no

Identification of major programs

CFDA Numbers

14.182

14.856

14.249

14.871

Name of Federal Program or Cluster

Section 8 New Construction and Substantial
Rehabilitation

Section 8 Moderate Rehabilitation

Section 8 Moderate Rehabilitation

Section 8 Rental Voucher Program

Dollar threshold used to distinguish
between Type A and Type B programs:

\$ 638,778

Auditee qualified as low-risk auditee?

 X Yes _____ No

GRAND RAPIDS HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS

There were no findings or questioned costs for the year ended June 30, 2004.